

CITY OF BAXTER, IOWA

Independent Auditors' Report  
Basic Financial Statements and  
Supplemental Information and Findings

June 30, 2009

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City of Baxter, Iowa  
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Stephen C. Smith	Mayor	December, 2009
Bryan DeJong	Mayor Pro Tem	December, 2009
Paul Geilenfeldt	Council Member	December, 2011
Larry Hesson	Council Member	December, 2011
Kelly Milligan	Council Member	December, 2009
Eric Nation	Council Member	December, 2009
Peggy Kimberley	City Clerk/Treasurer	Indefinite
John Billingsley	City Attorney	Indefinite

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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PRIVATE COMPANIES PRACTICE SECTION  
IOWA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Baxter

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Baxter, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Baxter's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited since June 30, 2004. Accordingly, we were unable to satisfy ourselves as to the distribution of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Baxter as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our reports on our consideration of the City of Baxter's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Baxter's basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

January 26, 2010

*Pollard and Company P.C.*

## **CITY OF BAXTER**

### **Management's Discussion and Analysis June 30, 2009**

The City of Baxter provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

Revenues of the City's governmental activities came to \$1,250,215. Receipts included \$355,555 in property tax, \$416,016 from charges for service, \$104,506 from operating grants, contributions and restricted interest, \$76,419 from local option taxes, \$10,429 from unrestricted interest on investments, \$13,400 from other general receipts, and \$273,890 from bond proceeds.

Disbursements came to \$1,242,900. Disbursements included \$152,858 for public safety, \$191,548 for community and economic development, and \$124,575 for public works. Disbursements for business type activities totaled \$653,421.

The City's total cash basis net assets came to \$600,682 with an increase of \$7,315 for the fiscal year.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year. Other Supplementary Information provides detailed information about the nonmajor governmental funds.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, sanitary sewer system, and landfill. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at

year-end that are available for spending. The governmental funds include: 1) General Fund, 2) Special Revenue Funds (Road Use, Local Option Sales Tax, Employee Benefits, and Urban Renewal Tax Increment), 3) Debt Service Fund, and 4) Permanent Fund.

The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and landfill funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash basis net assets decreased by \$20,933 during the fiscal year ending June 30, 2009. The following is an analysis of cash balances for governmental and proprietary activities as of year ended June 30, 2009.

### Changes in Cash Basis Net Assets of Governmental and Proprietary Activities

Receipts	Proprietary	Governmental
Property Taxes		\$120,478
Tax Increment Financing		235,077
Other City Taxes		84,650
Licenses and Permits		2,970
Use of Money and Property	\$1,174	13,245
Intergovernmental		104,506
Charges for Service	406,605	2,084
Miscellaneous		5,536
Total Receipts	<u>\$407,779</u>	<u>\$568,546</u>
Disbursements	Proprietary	Governmental
Public Safety		\$152,858
Public Works		124,575
Health and Social Services		780
Culture and Recreation		40,658



Community and Economic Development		191,548
General Government		66,658
Debt Service		12,402
Business Type Activities	\$653,421	
Total Disbursements	<u>\$653,421</u>	<u>\$589,479</u>
Excess (Deficit) of Receipts		(20,933)
Over (Under) Disbursements	(245,642)	
Other Financing Sources Net	273,890	
Excess (Deficiency) of Receipts and Other Financing		
Sources Over Disbursements and Other Financing Uses	28,248	(20,933)
Balance Beginning of Year	139,393	453,974
Balance End of Year	167,641	433,041

The City's total receipts for governmental activities were \$568,546 for fiscal year ending June 30, 2009. Decreases were seen in anticipated Local Option and Road Use funding.

The City's total disbursements for governmental activities were \$589,479 for fiscal year ending June 30, 2009. Increases were largely seen in Public Safety expenses and Public Works dealing with snow removal expenditures. Proprietary funds expenditures totaled \$653,421 which included expenditures due to completion of the Sewer Rehab Project.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Baxter ended fiscal year 2008/09 with a combined governmental fund balance of \$433,041, a decrease of \$20,933 over the beginning of the year fund balance. The following are the major reasons for the changes in fund balances of certain major funds from the prior year.

General Fund – The General Fund cash balance decreased by \$65,316 during the fiscal year. Expenditures increased in Public Safety with the purchase of an emergency generator for the Community Building.

The total receipts for Proprietary funds were \$407,779 for the fiscal year. Decreases were seen in anticipated water and sewer funds.

Road Use Tax Fund - The Road Use Tax Fund cash balance decreased by \$28,141 during the fiscal year. Expenditures increased over budget in the Snow Removal program due to heavy snowfall throughout the season.

## INDIVIDUAL MAJOR PROPRIETARY FUND ANALYSIS

The Water Fund cash balance decreased by \$11,847 during the fiscal year. The decrease was primarily due to additional expenditures in equipment repair/maintenance, additional water loss survey costs, increase in utility expenditures. The City has established a Water Depreciation Reserve for future maintenance and improvements. Allocated funding is deposited into the Reserve at the end of each fiscal year.

The Sewer Fund cash balance increased by \$42,069 during the fiscal year. The increase was primarily due to an increase in sewer rates necessary for financing of the Sewer Rehab. Project. The City has established a Sewer Depreciation Reserve for future maintenance and improvements. Allocated funding is deposited into the Reserve at the end of each fiscal year.

The Landfill Fund cash balance decreased by \$1,974 during the fiscal year. The decrease was primarily due to a shortfall in expected service revenue.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once in May, 2009. This amendment covered additional disbursements in the Public Safety Fund with the purchase of an emergency generator for the Community Building. An increase in Public Works with additional expenses for snow removal, and additional expenses in the Enterprise Fund involving the Sewer Rehab. Project. Additional revenues were seen in the Charges for Services Fund pertaining to the Sewer Rehab Project and loan funds received. The City had sufficient cash balances to absorb these additional costs.

### **DEBT ADMINISTRATION**

As of June 30, 2009, the City had approximately \$1,959,324 in bond and other long-term debt compared to approximately \$1,858,468 June 30, 2008. Debt increased as a result of the completion of the Sewer Rehab. Project which carried a final outstanding balance of \$757,000 verses the outstanding balance to date on June 30, 2008 of \$516,110.

#### **Outstanding Long-Term Debt at June 30, 2009**

General Obligation	\$14,336
TIF	654,574
Revenue Bonds	1,290,414
Grand Total	<u>\$1,959,324</u>

The City's outstanding general obligation and TIF debt of \$668,910 is below its constitutional debt limit of 5% of the taxable value of the properties.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Baxter's elected and appointed officials considered many factors when setting the fiscal year 2010 budget, tax rates, and fees. At the time of 2010 budget planning the City was near completion of a major Sewer Rehab Project reviewing funding avenues to begin the final phase of its Wastewater Facility Plan, the construction of a new lagoon system. At that time the City was also looking for funding options to proceed with a Storm Water Improvement Project to prevent area flooding in the north and east parameters of the community. A decision was also made to add a second officer to the City Police Department with additional costs having to be factored into the General Fund accordingly.

These factors were taken into account when adopting the budget for the fiscal year 2010/11. Budgeted receipts are estimated at \$938,384 with budgeted disbursements estimated at \$1,015,558. City investments, time certificates and savings accounts must also be taken into consideration in this overall picture.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by -\$77,174.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Peg Kimberley, City Clerk, 203 S. Main Street, Baxter, Iowa.

City of Baxter, Iowa  
Statement of Activities and Net Assets -- Cash Basis  
As of and for the year ended June 30, 2009

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 152,858	\$ 720	\$ 5,752	\$ -
Public works	124,575	-	87,284	-
Health and social services	780	-	-	-
Culture and recreation	40,658	1,930	11,470	-
Community and economic development	191,548	-	-	-
General government	66,658	6,761	-	-
Debt service	12,402	-	-	-
Total governmental activities	589,479	9,411	104,506	-
Business type activities				
Water	148,469	135,730	-	-
Sewer	425,037	192,934	-	-
Landfill	79,915	77,941	-	-
Total business type activities	653,421	406,605	-	-
Total Primary Government	\$ 1,242,900	\$ 416,016	\$ 104,506	\$ -
Component Unit				
Baxter Economic Development Corporation	\$ 64,024	\$ 15,547	\$ -	\$ -
General Receipts				
Property tax levied for				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash basis net assets				
Restricted (deficit)				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

*There were no reconciling items between the Governmental and Proprietary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.*

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Discretely Presented Component Unit
Governmental Activities	Business Type Activities	Total	
\$ (146,386)	\$ -	\$ (146,386)	
(37,291)	-	(37,291)	
(780)	-	(780)	
(27,258)	-	(27,258)	
(191,548)	-	(191,548)	
(59,897)	-	(59,897)	
(12,402)	-	(12,402)	
(475,562)	-	(475,562)	
-	(12,739)	(12,739)	
-	(232,103)	(232,103)	
-	(1,974)	(1,974)	
-	(246,816)	(246,816)	
\$ (475,562)	\$ (246,816)	\$ (722,378)	
\$ -	\$ -	\$ -	(48,477)
120,478	-	120,478	-
235,077	-	235,077	-
76,419	-	76,419	-
9,255	1,174	10,429	2,024
-	273,890	273,890	-
13,400	-	13,400	-
454,629	275,064	729,693	2,024
(20,933)	28,248	7,315	(46,453)
453,974	139,393	593,367	1,058,642
\$ 433,041	\$ 167,641	\$ 600,682	\$ 1,012,189
\$ 33,605	\$ -	\$ 33,605	\$ -
2,406	48,571	50,977	-
355,719	-	355,719	1,012,189
41,311	119,070	160,381	-
\$ 433,041	\$ 167,641	\$ 600,682	\$ 1,012,189

City of Baxter, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2009

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits
<b>Receipts</b>				
Property Taxes	\$ 102,121	\$ -	\$ -	\$ 14,779
Tax Increment Financing Collections	-	-	-	-
Other City Taxes	8,231	-	76,419	-
Licenses and Permits	2,970	-	-	-
Use of Money and Property	13,245	-	-	-
Intergovernmental	17,222	87,284	-	-
Charges for Services	2,084	-	-	-
Miscellaneous	3,362	1,362	-	446
Total Receipts	149,235	88,646	76,419	15,225
<b>Disbursements</b>				
Operating				
Public Safety	139,336	-	-	13,522
Public Works	2,300	116,787	-	5,488
Health and Social Services	780	-	-	-
Culture and Recreation	38,677	-	-	1,981
Community and Economic Development	302	-	-	-
General Government	61,194	-	-	5,464
Debt Service	-	-	-	-
Total Disbursements	242,589	116,787	-	26,455
Excess (deficiency) of receipts over (under) disbursements	(93,354)	(28,141)	76,419	(11,230)
Other financing sources (uses)				
Operating transfers in	40,440	-	-	39,578
Operating transfers out	(12,402)	-	(76,419)	-
Total other financing sources (uses)	28,038	-	(76,419)	39,578
Net change in cash balances	(65,316)	(28,141)	-	28,348
Cash balance (Deficit) - beginning of year	106,627	61,746	-	(28,348)
Cash balance - end of year	\$ 41,311	\$ 33,605	\$ -	\$ -
<b>Cash basis fund balances</b>				
Reserved				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved				
General fund	41,311	-	-	-
Special revenue funds	-	33,605	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 41,311	\$ 33,605		

The accompanying notes to financial statements are an integral part of this statement.

Special Revenue				
Urban Renewal Tax Increment	Urban Renewal Tax Increment - L.M.I	Other Nonmajor Governmental Funds	Total	
\$ -	\$ -	\$ 3,578	\$	120,478
205,028	30,049	-		235,077
-	-	-		84,650
-	-	-		2,970
-	-	-		13,245
-	-	-		104,506
-	-	-		2,084
-	-	366		5,536
205,028	30,049	3,944		568,546
-	-	-		152,858
-	-	-		124,575
-	-	-		780
-	-	-		40,658
191,046	200	-		191,548
-	-	-		66,658
-	-	12,402		12,402
191,046	200	12,402		589,479
13,982	29,849	(8,458)		(20,933)
-	-	12,402		92,420
-	-	(3,599)		(92,420)
-	-	8,803		-
13,982	29,849	345		(20,933)
180,830	80,518	52,601		453,974
\$ 194,812	\$ 110,367	\$ 52,946	\$	433,041
\$ -	\$ -	\$ 2,406	\$	2,406
-	-	-		41,311
194,812	110,367	30		338,814
-	-	50,510		50,510
\$	110,367	\$ 52,946	\$	433,041

City of Baxter, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2009

	Water	Sewer	Landfill	Total
Operating receipts				
Charges for service	\$ 135,730	\$ 192,934	\$ 77,941	\$ 406,605
Total operating receipts	135,730	192,934	77,941	406,605
Operating disbursements				
Business-type activities	104,574	69,037	79,915	253,526
Total operating disbursements	104,574	69,037	79,915	253,526
Excess (deficiency) of operating receipts over (under) operating disbursements	31,156	123,897	(1,974)	153,079
Non-operating receipts (disbursements)				
Interest on Investments	892	282	-	1,174
Bond Proceeds	-	273,890	-	273,890
Capital Projects	(13,895)	(281,685)	-	(295,580)
Debt service	(30,000)	(74,315)	-	(104,315)
Total non-operating receipts (disbursements)	(43,003)	(81,828)	-	(124,831)
Excess (Deficiency) of receipts over (under) disbursements	(11,847)	42,069	(1,974)	28,248
Cash balances - beginning of year	24,269	46,642	68,482	139,393
Cash balances - end of year	\$ 12,422	\$ 88,711	\$ 66,508	\$ 167,641
Cash basis fund balances				
Unreserved	\$ 12,422	\$ 88,711	\$ 66,508	\$ 167,641
Total cash basis fund balances	\$ 12,422	\$ 88,711	\$ 66,508	\$ 167,641

*See notes to financial statements*



City of Baxter, Iowa  
Notes To Financial Statements  
June 30, 2009

1/ Summary of Significant Accounting Policies

The City of Baxter is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1894 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Baxter has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The Baxter Economic Development Corporation is a not-for-profit corporation organized for the purpose of performing specific economic development activities within the City of Baxter. The Baxter Economic Development Corporation has a fiscal year end that is different from that of the primary government. The financial information reported in the Statement of Activities and Net Assets – Cash Basis reflects the unaudited revenue and expenses for the year ending December 31, 2008.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the City's citizenry, but do not meet the criteria for a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: The Jasper County Library Board, Jasper County E911 Board, Jasper County Disaster Services, and Jasper County Animal Rescue League.

The City joined with the West Malaka Benefited Fire District to finance the operations for fire suppression and emergency response for all rural property within the benefited fire district. The City and District share in the cost of operating a fire department based upon a running five year average based on total taxable property valuations, annual total of fire and rescue calls, and homestead tax credits within the area. The agreement covers the fiscal year ending June 30, 2009 and is renewed on an annual basis. During the year ended June 30, 2009, the City paid \$24,072 to the District.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

Local Option Sales Tax is used to account for the one cent local option tax.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

Urban Renewal Tax Increment Fund is used to account for the tax increment financing collections and the repayment of tax increment financing indebtedness and the payment of other expenses relating to the Tax Increment Financing District

Urban Renewal Tax Increment – LMI Fund is used to account for the tax increment financing collections and payment of expenses related to the City's Low to Moderate Income housing program.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Water Fund accounts for the operation and maintenance of the City's water system.

The Landfill Fund accounts for the operation of the City's solid waste disposal system.

#### C. Measurement Focus and Basis of Accounting

The City of Baxter maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a propriety funds' principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Budget and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the debt service function.

#### 2/ Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Interest Rate Risk – the City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but maturities shall be consistent with the needs and use of the City.

3/ Bonds and Notes Payable

Annual debt service requirements for general obligation notes, and revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing Revenue Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	6,958	860	157,720	23,718	59,974	44,118	224,652	68,696
2011	7,378	443	141,530	17,746	61,773	42,032	210,681	60,221
2012	-	-	91,108	13,120	64,612	39,843	155,720	52,963
2013	-	-	91,108	9,840	66,492	36,953	157,600	46,793
2014	-	-	91,108	6,560	68,417	35,188	159,525	41,748
2015-2019	-	-	82,000	3,280	385,654	134,280	467,654	137,560
2020-2024	-	-	-	-	391,492	65,436	391,492	65,436
2025-2029	-	-	-	-	192,000	11,370	192,000	11,370
Total	\$ 14,336	\$ 1,303	\$ 654,574	\$ 74,264	\$ 1,290,414	\$ 409,220	\$ 1,959,324	\$ 484,787

#### Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$500,000 in water revenue bonds issued in September 1982. Proceeds from the bonds provided financing for the water system construction and improvement. The bonds are payable solely from water customer net receipts and are payable through 2022. Annual principal and interest payments on the bonds are expected to require less than 96 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$373,688. For the current year, principal and interest paid and customer net receipts were \$30,000 and \$31,156, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,203,000 in sewer revenue bonds issued in March 2007 and January 2008. Proceeds from the bonds provided financing for the sewer treatment plant construction and improvement. The bonds are payable solely from sewer customer net receipts and are payable through 2027. Annual principal and interest payments on the bonds are expected to require less than 76 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,325,946. For the current year, principal and interest paid and customer net receipts were \$74,315 and \$123,897, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- The bonds will only be redeemed from the future earnings of each enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- Sewer user rates shall be established and charged to customers at least sufficient to pay the expenses of operation and maintenance and to have a balance of net revenues equal to at least 110% of the principal and interest on the bonds falling due in the same year.

During the year, the City did not make the required monthly transfers to the sewer revenue bond sinking account, and had not established a sufficient balance in the sinking account at year end.

3/ Bonds and Notes Payable (continued)

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$1,404,648 of urban renewal tax increment financing (TIF) revenue bonds for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. For the current year, principal and interest paid, and total TIF receipts were \$184,718 and \$205,028, respectively.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009 were \$11,532, equal to the required contributions for the year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, is \$13,000.

This liability has been computed based on rates of pay as of June 30, 2009.

6/ Risk Management

The City of Baxter is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

	Transfer To			
	General	Employee Benefits	Debt Service	Total
Transfer from				
Emergency Levy	\$ 3,599	\$ -	\$ -	\$ 3,599
General	-	-	12,402	12,402
Local Option Sales Tax	36,841	39,578	-	76,419
	<u>\$ 40,440</u>	<u>\$ 39,578</u>	<u>\$ 12,402</u>	<u>\$ 92,420</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

9/ Landfill Closure and Postclosure Care

The City has entered into an agreement with several other municipalities, as allowed under Code of Iowa Section 28E, to provide for economically and environmentally responsible disposal of solid waste and establish permanent responsibility for the Newton Sanitary Landfill. State and Federal laws and regulations require the Newton Sanitary Landfill to place a final cover on the site and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid near or after the date that the landfill no longer accepts waste, the Landfill has estimated the total liability for such to be \$4,400,000. This amount is based on 2009 cost estimates. The closure is expected to be in 2011. Actual costs may be higher due to inflation, technology changes, and changes in regulations. As specified in the 28E agreement, the City is responsible for 2.11% or approximately \$93,000.

10/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$12,362 during the year ended June 30, 2009.

11/ Tax Increment Financing

The Urban Renewal Tax Increment – LMI fund contains the division of tax receipts as provided for in Chapter 403.19 of the Code of Iowa for the purpose of providing or aiding public improvements and residential development. That Chapter and Chapter 403.22 provides that the City must include assistance to low and moderate income family housing. The City has adopted and implemented an affordable housing plan.

City of Baxter, Iowa  
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 Year ended June 30, 2009

	Governmental Funds Actual	Enterprise Funds Actual	Net
<b>Receipts</b>			
Property Taxes	\$ 120,478	\$ -	\$ 120,478
Tax Increment Financing Collections	235,077	-	235,077
Other City Taxes	84,650	-	84,650
Licenses and permits	2,970	-	2,970
Use of money and property	13,245	1,174	14,419
Intergovernmental	104,506	-	104,506
Charges for Service	2,084	406,605	408,689
Special Assessments	-	-	-
Miscellaneous	5,536	-	5,536
Total Receipts	<u>568,546</u>	<u>407,779</u>	<u>\$ 976,325</u>
<b>Disbursements</b>			
Public safety	152,858	-	152,858
Public works	124,575	-	124,575
Health and Social Services	780	-	780
Culture and recreation	40,658	-	40,658
Community and economic development	191,548	-	191,548
General government	66,658	-	66,658
Debt service	12,402	-	12,402
Business type activities	-	653,421	653,421
Total Disbursements	<u>589,479</u>	<u>653,421</u>	<u>1,242,900</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(20,933)</u>	<u>(245,642)</u>	<u>(266,575)</u>
Other financing sources, net	<u>-</u>	<u>273,890</u>	<u>273,890</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(20,933)</u>	<u>28,248</u>	<u>7,315</u>
Balance - beginning of year	<u>453,974</u>	<u>139,393</u>	<u>593,367</u>
Balance - end of year	<u>\$ 433,041</u>	<u>\$ 167,641</u>	<u>\$ 600,682</u>

*See accompanying independent auditors' report.*

Budgeted Amounts		
Original	Final	Final to Net Variance
\$ 118,824	\$ 118,824	\$ 1,654
244,213	232,547	2,530
89,399	85,450	(800)
2,805	2,975	(5)
14,060	12,187	2,232
116,075	105,082	(576)
565,490	711,532	(302,843)
515	1,153	(1,153)
2,250	1,713	3,823
1,153,631	1,271,463	(295,138)
142,724	162,923	10,065
117,675	130,539	5,964
780	780	-
42,508	44,355	3,697
245,478	191,997	449
83,340	73,671	7,013
-	-	(12,402)
521,715	688,136	34,715
1,154,220	1,292,401	49,501
(589)	(20,938)	(245,637)
1,500	1,375	272,515
911	(19,563)	26,878
425,458	425,458	167,909
\$ 426,369	\$ 405,895	\$ 194,787



City of Baxter, Iowa  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$138,181. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the debt service function.

City of Baxter, Iowa  
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances  
Nonmajor Governmental Funds  
As of and for the year ended June 30, 2009

	Special Revenue		Permanent	
	Emergency Levy	Debt Service	Cemetery Perpetual Care	Total
Receipts				
Property tax	\$ 3,578	\$ -	\$ -	\$ 3,578
Miscellaneous	-	-	366	366
Total Receipts	3,578	-	366	3,944
Disbursements				
Operating				
Debt Service	\$ -	\$ 12,402	\$ -	\$ 12,402
Total Disbursements	-	12,402	-	12,402
Excess (deficiency) of receipts over (under) disbursements	3,578	(12,402)	366	(8,458)
Other financing sources (uses)				
Operating transfers in	-	12,402	-	12,402
Operating transfers out	(3,599)	-	-	(3,599)
Total other financing sources (uses)	(3,599)	12,402	-	8,803
Net change in cash balances	(21)	-	366	345
Cash balance - beginning of year	51	2,406	50,144	52,601
Cash balance - end of year	\$ 30	\$ 2,406	\$ 50,510	\$ 52,946
Cash basis fund balances				
Reserved				
Debt service	\$ -	\$ 2,406	\$ -	\$ 2,406
Unreserved				
Special revenue funds	30	-	-	30
Permanent fund	-	-	50,510	50,510
Total cash basis fund balances	\$ 30	\$ 2,406	\$ 50,510	\$ 52,946

See accompanying independent auditors' report.

City of Baxter, Iowa  
Schedule of Indebtedness  
For the year ended June 30, 2009

	Date of Issue	Interest Rates	Amount Originally Issued
Obligation			
Emergency Generator	June, 2008	6.00%	21,420
Vehicle Loan	March, 2006	4.00%	17,257
Totals			
Urban Renewal Tax Increment			
Financing (TIF) Revenue Bonds			
Series 2003 A	August, 2003	3.68%	530,000
Annual Appropriation Series 2005	March, 2005	4.00%	820,000
Kid-Ville, Inc.	August, 2008	0.00%	54,648
Totals			
Revenue Bonds			
Water Project Bonds	November, 1982	5.00%	\$ 500,000
Sewer Revenue Bonds Series 2007	March, 2007	3.00%	303,000
Sewer Revenue Bonds Series 2008	January, 2008	3.00%	900,000
Totals			

*See accompanying independent auditor's report.*

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
21,420	-	7,084	\$ 14,336	736
4,506	-	4,506	-	76
<u>\$ 25,926</u>	<u>\$ -</u>	<u>\$ 11,590</u>	<u>\$ 14,336</u>	<u>\$ 812</u>

\$ 181,522	\$ -	\$ 64,488	\$ 117,034	\$ 6,162
574,000	-	82,000	492,000	22,960
-	54,648	9,108	45,540	-
<u>\$ 755,522</u>	<u>\$ 54,648</u>	<u>\$ 155,596</u>	<u>\$ 654,574</u>	<u>\$ 29,122</u>

\$ 288,910	\$ -	\$ 15,496	\$ 273,414	\$ 14,504
272,000	-	12,000	260,000	8,160
516,110	273,890	33,000	757,000	21,155
<u>\$ 1,077,020</u>	<u>\$ 273,890</u>	<u>\$ 60,496</u>	<u>\$ 1,290,414</u>	<u>\$ 43,819</u>

City of Baxter, Iowa  
Bond and Note Maturities  
June 30, 2009

General Obligation Bond			Urban Renewal Tax Increment (TIF) Revenue Bonds						
Emergency Generator			Annual Appropriation Series 2005						
Issued June 5, 2008			Series 2003A		Kid-Ville, Inc				
Year Ending June 30,	Interest Rates (%)	Amount	Issued August 1, 2003		Issued March 16, 2005		Issued August 11, 2008		Total
			Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount	
2010	6.00	6,958	3.68	66,612	4.00	82,000	0.00	9,108	157,720
2011	6.00	7,378	3.68	50,422	4.00	82,000	0.00	9,108	141,530
2012					4.00	82,000	0.00	9,108	91,108
2013					4.00	82,000	0.00	9,108	91,108
2014					4.00	82,000	0.00	9,108	91,108
2015					4.00	82,000			82,000
Totals		\$ 14,336		\$ 117,034		\$ 492,000		\$ 45,540	\$ 654,574

Revenue Bonds							
Sewer Revenue Bonds Series 2007    Sewer Revenue Bonds Series 2008							
Water Project Bonds							
Year Ending June 30,	Interest Rates (%)	Amount	Issued November 23, 1982		Issued March 15, 2007		Total
			Interest Rates (%)	Amount	Interest Rates (%)	Amount	
2010	5.00	15,974	3.00	12,000	3.00	32,000	59,974
2011	5.00	16,773	3.00	12,000	3.00	33,000	61,773
2012	5.00	17,612	3.00	13,000	3.00	34,000	64,612
2013	5.00	18,492	3.00	13,000	3.00	35,000	66,492
2014	5.00	19,417	3.00	13,000	3.00	36,000	68,417
2015	5.00	20,388	3.00	14,000	3.00	37,000	71,388
2016	5.00	21,407	3.00	14,000	3.00	39,000	74,407
2017	5.00	22,477	3.00	15,000	3.00	40,000	77,477
2018	5.00	23,601	3.00	15,000	3.00	41,000	79,601
2019	5.00	24,781	3.00	16,000	3.00	42,000	82,781
2020	5.00	26,020	3.00	16,000	3.00	44,000	86,020
2021	5.00	27,322	3.00	16,000	3.00	45,000	88,322
2022	5.00	19,150	3.00	17,000	3.00	47,000	83,150
2023			3.00	18,000	3.00	48,000	66,000
2024			3.00	18,000	3.00	50,000	68,000
2025			3.00	19,000	3.00	51,000	70,000
2026			3.00	19,000	3.00	53,000	72,000
2027					3.00	50,000	50,000
Totals		\$ 273,414		\$ 260,000		\$ 757,000	\$ 1,290,414

See accompanying independent auditors' report.

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund and the aggregate remaining fund information of the City of Baxter, Iowa as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Baxter's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we considered to be a significant deficiency and we considered to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Baxter's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Baxter's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Baxter and other parties to whom the City of Baxter may report. This report is not intended to be and should not be used by anyone other than these specified parties.

January 26, 2010

*Pollard and Company P.C.*

CITY OF BAXTER, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

PART I     Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES

I-A-09   Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The posting of the cash receipts and disbursements to the general ledger, reconciliations and securities control and custody are all done by the same person.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response

The City will attempt to segregate duties to the extent possible to provide additional control through review of financial transactions and reports and segregation of duties.

Conclusion- Response accepted.

PART II     Other Findings Related to Statutory Reporting

II-A-09   Certified Budget

Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the debt service function.

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

The budget will be amended in the future, if applicable.

Conclusion- Response accepted.

II-B-09   Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09   Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.



PART II      Other Findings Related to Statutory Reporting ( continued)

II-D-09 Business Transactions

During the year ended June 20, 2009, the City purchased goods and services from the following City officials:

Bryon DeJong	Council Member and owner of Baxter Oil Company	\$6,877
Kelly Milligan	Council Member and owner of Keltek Incorporated	\$5,485

Recommendation

Since these payments are in excess of \$2,500, they may be in violation of Chapter 362.5(11) of the Code of Iowa. The City should consult legal counsel to determine the disposition of this matter.

Response

We purchase fuel and supplies from Baxter Oil Company and radio installation and repair from Keltek Incorporated. Both of these businesses are the only type of vendor within the City.

Conclusion – Response accepted.

II-E-09 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

II-F-09 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation

The City should comply with the Code of Iowa and publish the minutes as required.

Response

We will publish the minutes as required.

Conclusion - Response accepted.

II-G-09 Deposits and Investments

We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-09 Retention of Electronic Records

As required by Chapter 554D.114(5) of the Code of Iowa, if a bank retains the City's checks in electronic format, the check images received by the City should display both the front and back of the check.

Recommendation

The City should contact the bank to determine the disposition of this matter.

Response

We will contact the bank and discuss the matter with them.

Conclusion - Response accepted.

PART II      Other Findings Related to Statutory Reporting (continued)

II-I-09    Annual Report for a Perpetual Care Cemetery

The City has not filed an annual report for a perpetual care cemetery as required by Chapter 523I.813 of the Code of Iowa.

Recommendation

The City should file the report as required.

Response

We will file the report as required.

Conclusion- Response accepted.

II-J-09    Revenue Bonds

As noted in Note 3, the City was not in compliance with the sewer revenue bond resolution requiring monthly transfers to a revenue bond sinking account and had not established sufficient balance in the sinking account at year end.

Recommendation

The City should set aside, monthly in a sewer sinking fund, 1/6<sup>th</sup> of the next interest payment, and 1/12<sup>th</sup> of the next principal payment. Sufficient balances should be maintained in the account at year end.

Response

The monthly amounts will be set aside in the sewer bond sinking account.

Conclusion- Response accepted.